



Clark County, Washington

Investment Overview

February 20, 2001

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2000 Economic Review



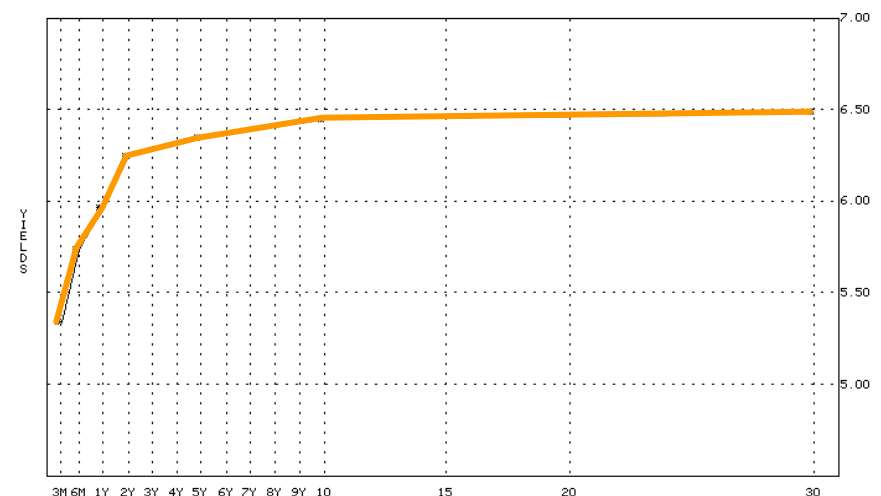
The year begins with expectations of extraordinary growth with significant inflation concerns.

- Confidence in the bond markets and the equity markets were on opposite extremes. Investor confidence in the equity markets was unprecedented, while the bond market anticipated a series of interest rate increases in 2000 after Greenspan noted the Fed saw “heightened inflationary pressures”.
- Fed Funds rate starts 2000 at 5.50% after three 0.25% increases in late 1999.
- Interest rates are significantly higher than their 1998 lows.

Yield on the 2-year Treasury Note
January to December 1999



U.S. Treasury Yield Curve
12/31/99



Source: Bloomberg

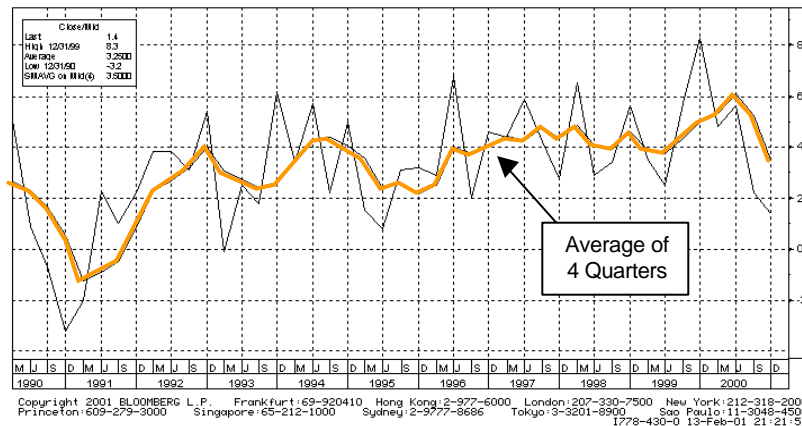
2000 Economic Review



Economic growth significantly slowed in the second half of 2000.

- 4Q 2000 GDP was weaker than expected at 1.4%. The market views that the first half of 2001, GDP growth will be at or near zero percent. The Fed believes the second half will improve and for the full year GDP growth will be in the 2.0% to 2.5% range.
- The NAPM Index has been on a decline for 11 consecutive months. Has been below the 50.0 level for six consecutive months.
- The Consumer Confidence Index has begun showing signs of weakness.

Gross Domestic Product (Annualized Percent Change) 1990 -2000

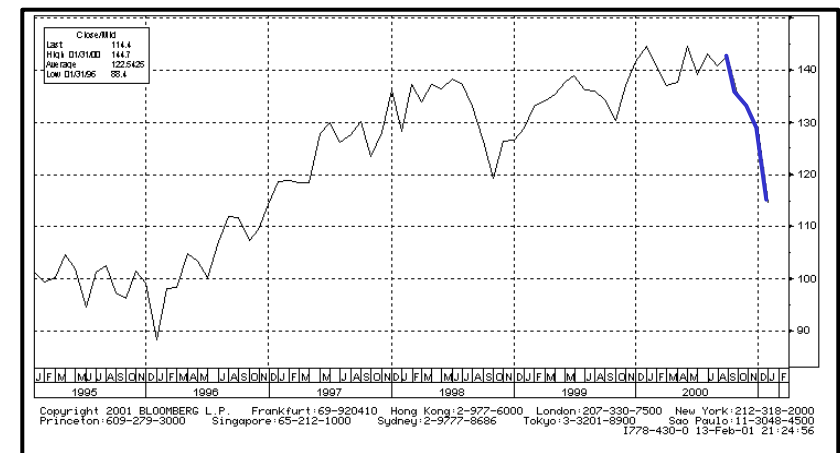


Source: Bloomberg

National Association of Purchasing Managers (NAPM) Index January 1990 – January 2001



Consumer Confidence January 1995 – January 2001



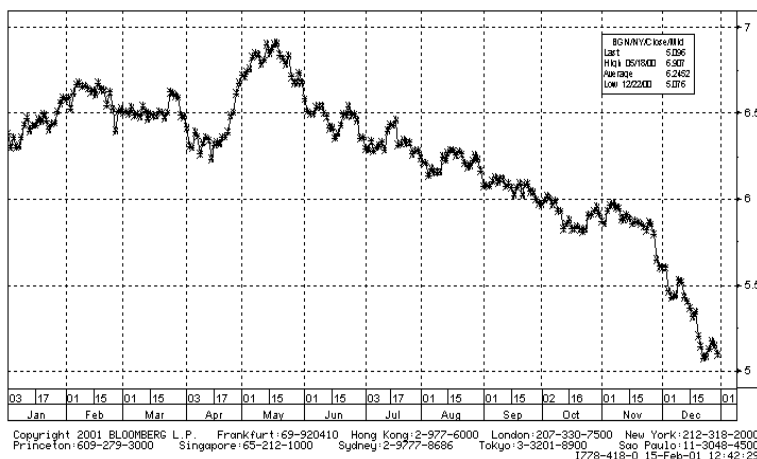
2000 Economic Review



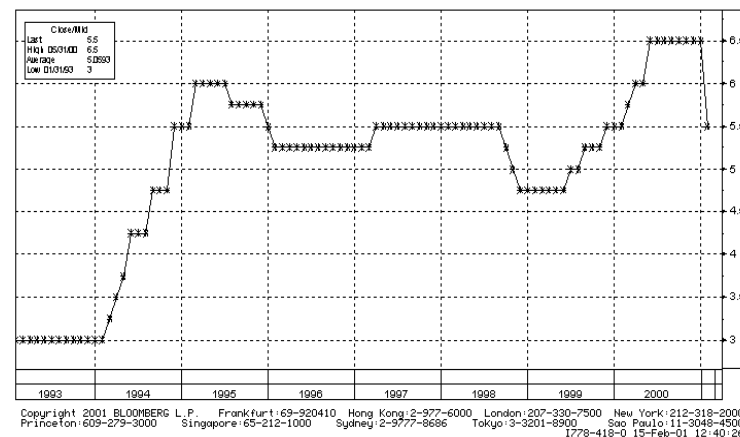
After interest rates peaked in May, rates fell dramatically.

- Fed raised short-term rates by a full percentage point with three rates increases (February 0.25%, March 0.25% and May 0.50%).
- Treasury yields are down significantly and the yield curve remains inverted with the yield on the 2-Year U.S. Treasury Note down 1.35%.
- The Fed Reserve lowered rates by 100 basis points (1.00%) in January 2001.

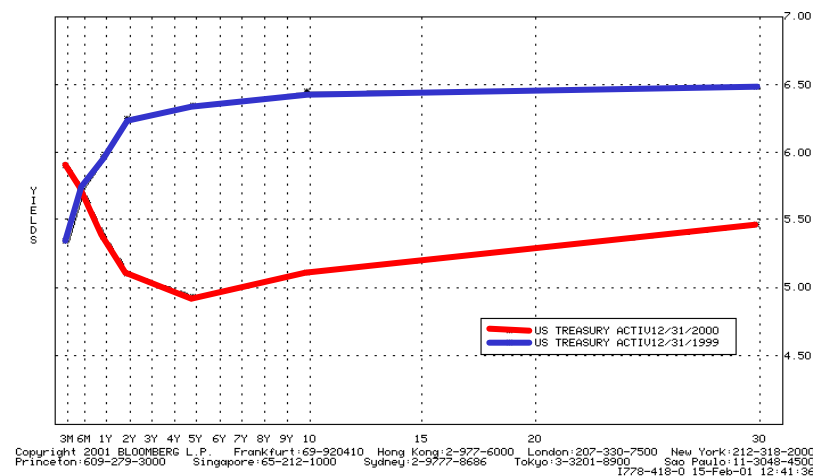
**Yield on 2-Year U.S. Treasury Note
12/31/99 – 12/31/00**



**Target Fed Funds Rate
January 1993 – January 2001**



**U.S. Treasury Yield Curve
12/31/99 vs. 12/31/00**



Total Returns May Differ Based on Duration



2000 was an outstanding year for fixed income portfolios.

- As yields decreased security prices increased.
- Market values for existing securities/portfolios increased with the decline in rates. The impact was greatest on longer-term securities/portfolios.

	Effective Duration*	1996	1997	1998	1999	2000
0-1 Year US Treasury	0.44	5.55%	5.64%	5.66%	4.73%	6.53%
1-3 Year Agency	1.50	5.38%	6.63%	6.86%	3.51%	8.54%
1-3 Year Treasury	1.59	4.98%	6.66%	7.00%	3.06%	8.00%
3-5 Year Agency	2.78	4.79%	7.59%	7.66%	1.25%	10.52%
3-5 Year Treasury	3.40	3.56%	8.03%	9.08%	0.04%	10.86%

* Effective Duration as of 12/31/00

Source: Bloomberg – Merrill Lynch Indices

Total Returns May Differ Based on Sector



	Effective Duration*	1996	1997	1998	1999	2000
1-3 Year U.S. Treasury Note	1.59	4.98%	6.66%	7.00%	3.06%	8.00%
1-3 Year U.S. Government	1.50	5.02%	6.66%	6.98%	3.12%	8.13%
1-3 Year U.S. Federal Agency	1.56	5.38%	6.63%	6.86%	3.51%	8.54%
1-3 Year U.S. Government/Corporate	1.61	5.08%	6.70%	7.01%	3.25%	8.07

* Effective Duration as of 12/31/00

Source: Bloomberg – Merrill Lynch Indices

Pool Portfolio Performance



Continued strong performance validates the strategy for Clark County's portfolio.

- A strategy of targeting a portfolio maturity of 9-10 months captured much of the return available with longer-term portfolios with less risk.

12-Month Total Return

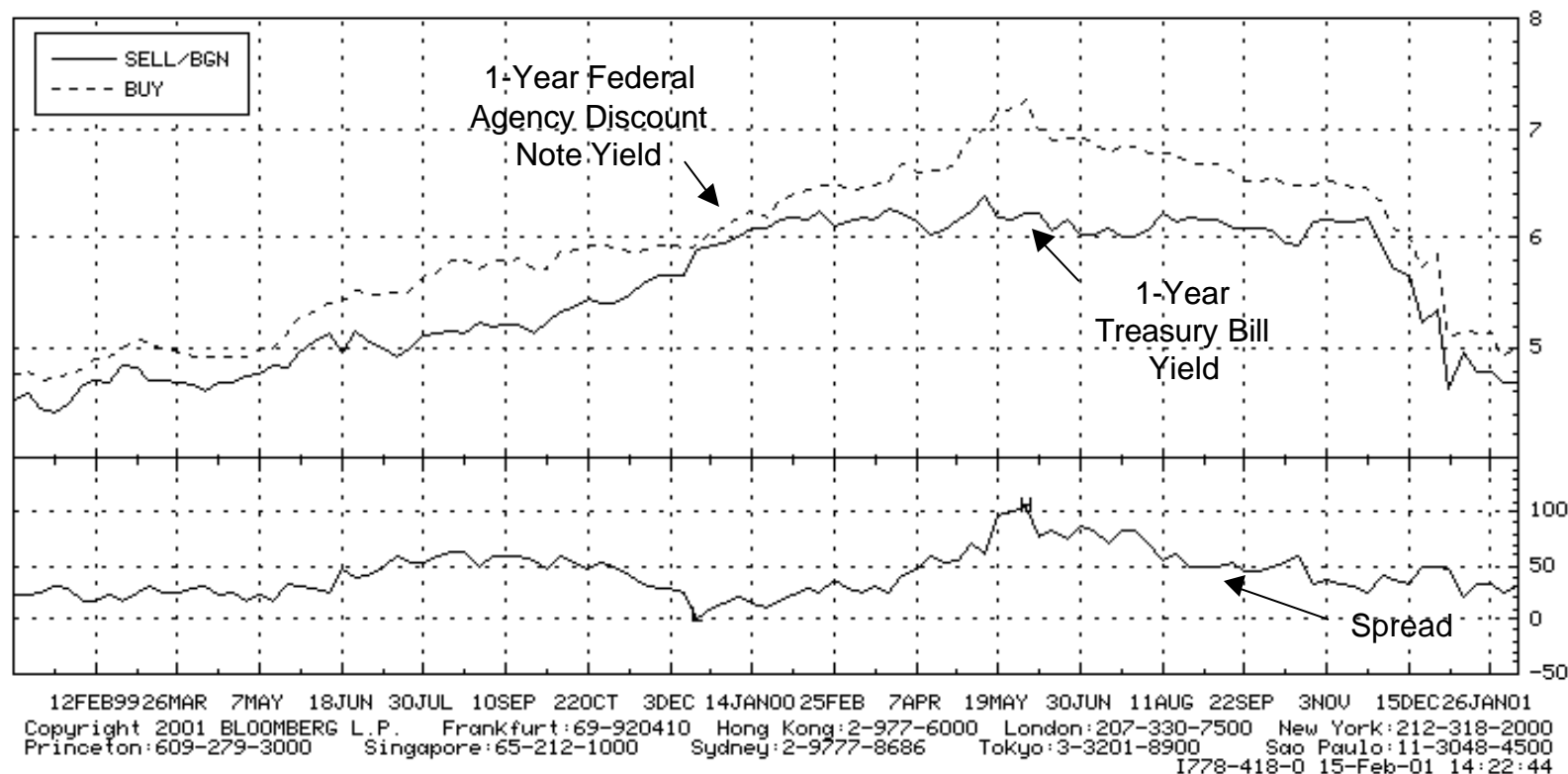
	1999	2000
3-month T-Bill	4.85%	6.18%
6-month T-Bill	4.64%	6.51%
1-year T-Bill	4.03%	6.78%
1-3 year Treasuries	3.06%	8.00%
3-5 year Treasuries	0.04%	10.86%
5-7 year Treasuries	-2.35%	13.27%
Clark County Pool	4.56%	7.16%

-Source for Treasury Indexes: Bloomberg/Merrill Lynch
-Clark County pool return based on monthly market value return computed by the County Treasurer's Office, geometrically linked for the 12 months.

U.S. Treasuries vs. Federal Agencies Yield Spreads



1-Year U.S. Treasury Bill versus 1-Year Federal Agency Discount Note Weekly, January 1, 1999 - February 9, 2001



Uncertainties in Future for Fixed Income Markets



- U.S. Treasury plans to pay-down federal debt.
 - Decreased issuance of notes and bonds.
 - Enacted buy-back program of outstanding bonds/notes.
 - Ultimate goal, per Clinton's proposed budget, is to eliminate publicly held debt by 2013.
- Unanswered questions.
 - What will replace Treasuries as most liquid investments in market?
 - What will be used for benchmarks?
 - What will happen to spread relationships with other fixed-income products?

Uncertainties in Future for Fixed Income Markets

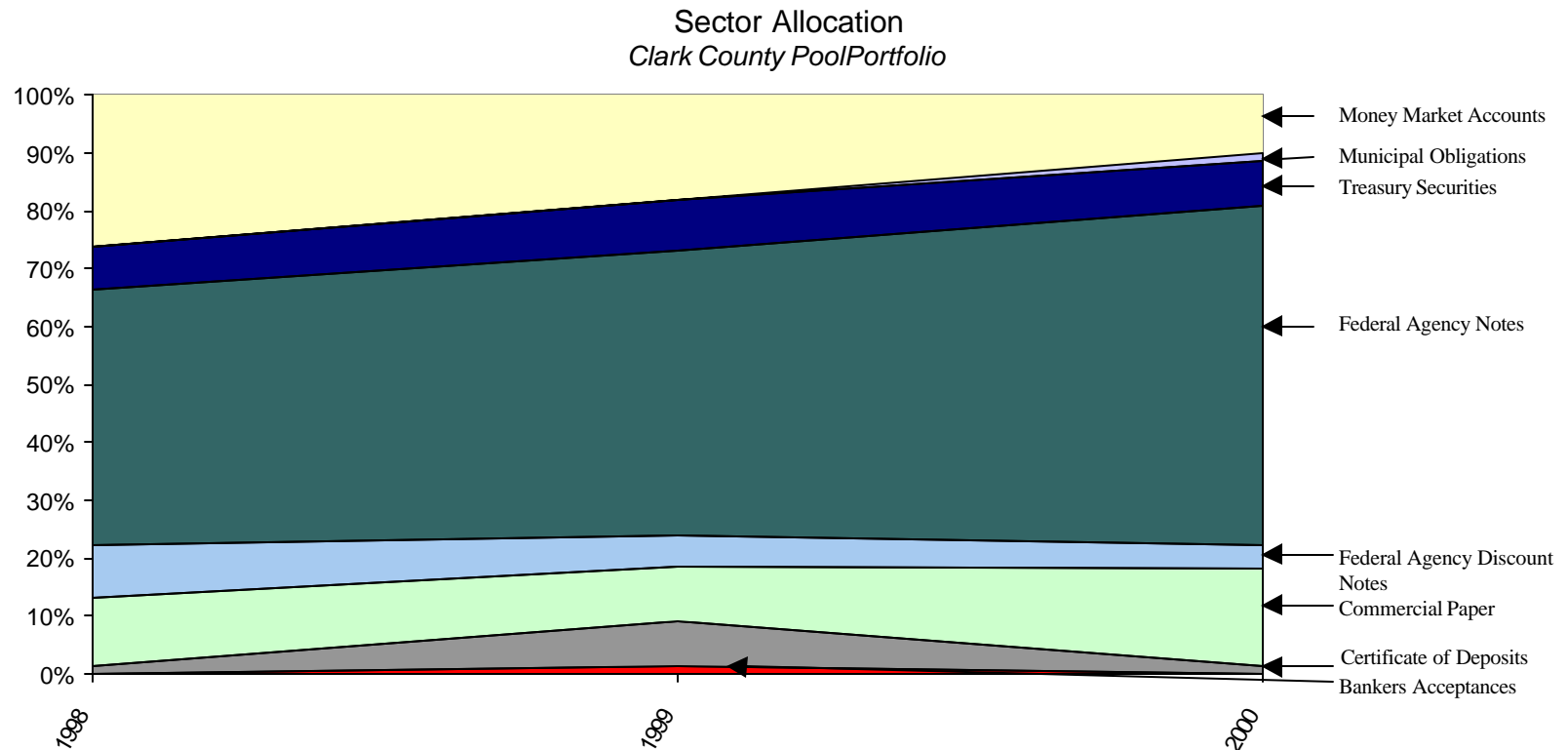


- U.S. Congress considering the elimination of the Treasury line-of-credit for “Government-Sponsored Enterprises” (Federal Agencies).
 - Impact on FNMA, FHLMC, FHLB.
- Legislation not expected in the near future, so no short-term implications.
- Ratings may be impacted in the future.
 - S&P would place greater emphasis on financial strength of each Agency.
- Yield spreads may change *if implied* credit quality changes.
- Market value of outstanding Agency debt could be affected.
- Issuance may decrease if more expensive for Agencies to issue debt.

Asset Allocation



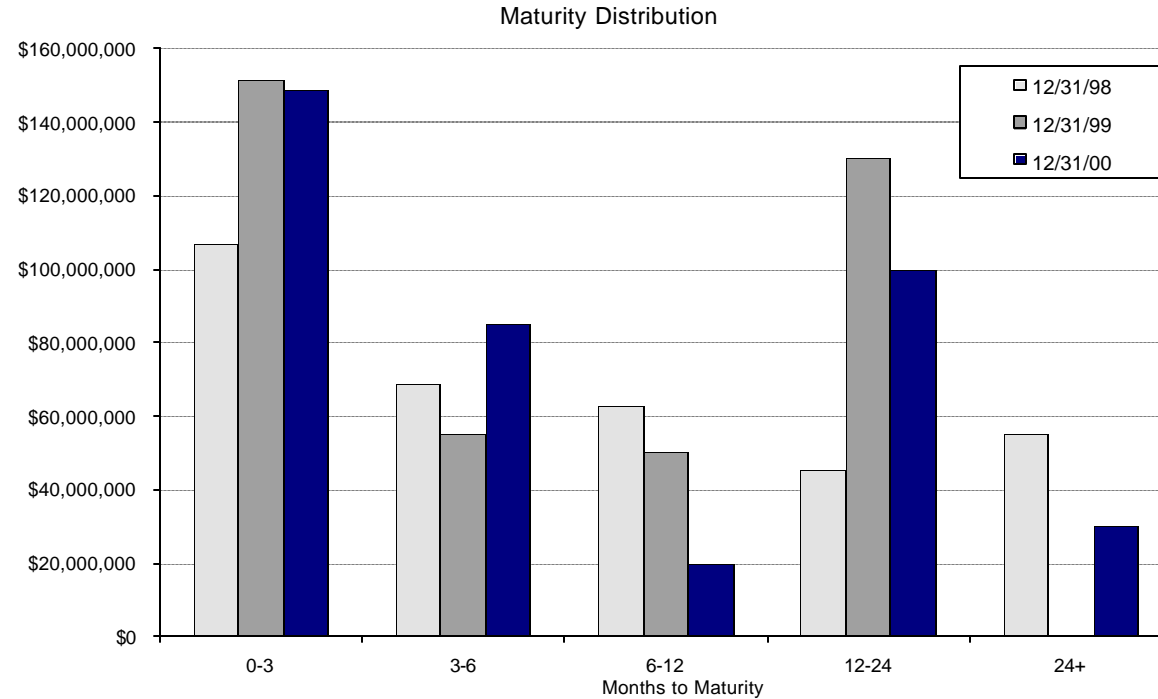
- Continued to increased its allocation to Federal Agency notes.
- Additional funds invested in Commercial Paper, Certificate of Deposits, and the State LGIP.



Maturity Distribution



- The County maintained a well diversified, laddered portfolio
 - Level out cash flows
 - Stabilize earnings
 - Minimize reinvestment risk.
- Average maturity was around 9 months at year end, in-line with target of 9-10 months.

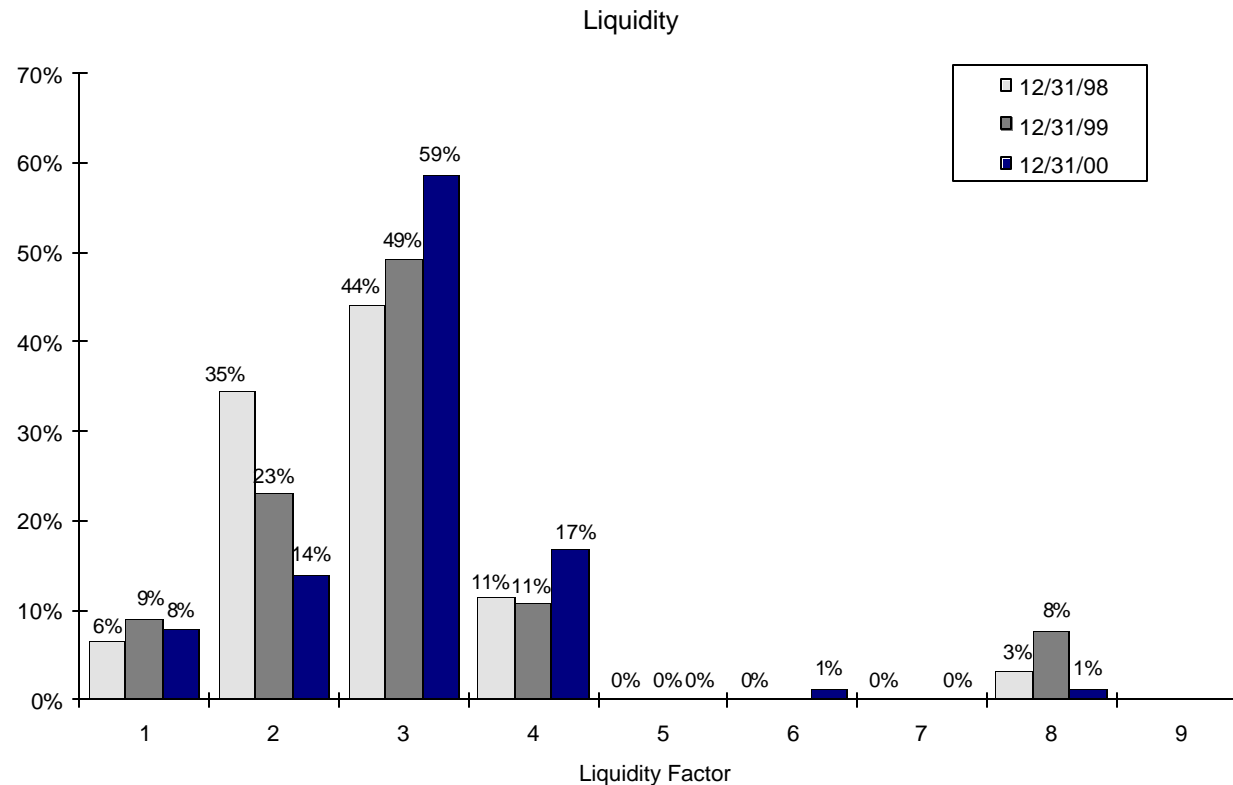


**Based on per values of securities in pool portfolio.

Liquidity



- The portfolio remains highly liquid.
- At year end, 80% of the portfolio was invested in one of the top three liquidity categories.

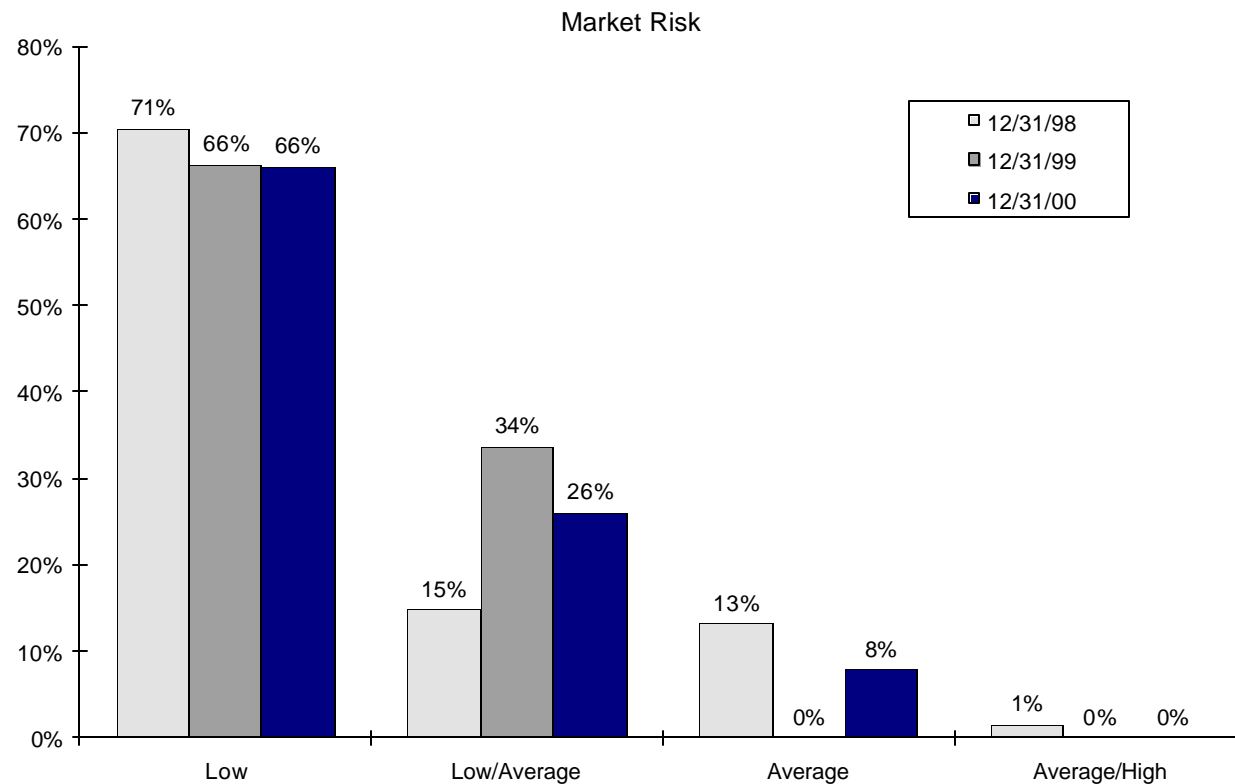


**Based on per values of securities in pool portfolio.

Market Risk



- The portfolio is exposed to only a modest amount of market risk.
- At year end, 92% of the portfolio was invested in securities with a low sensitivity or low to average sensitivity to interest rate changes.

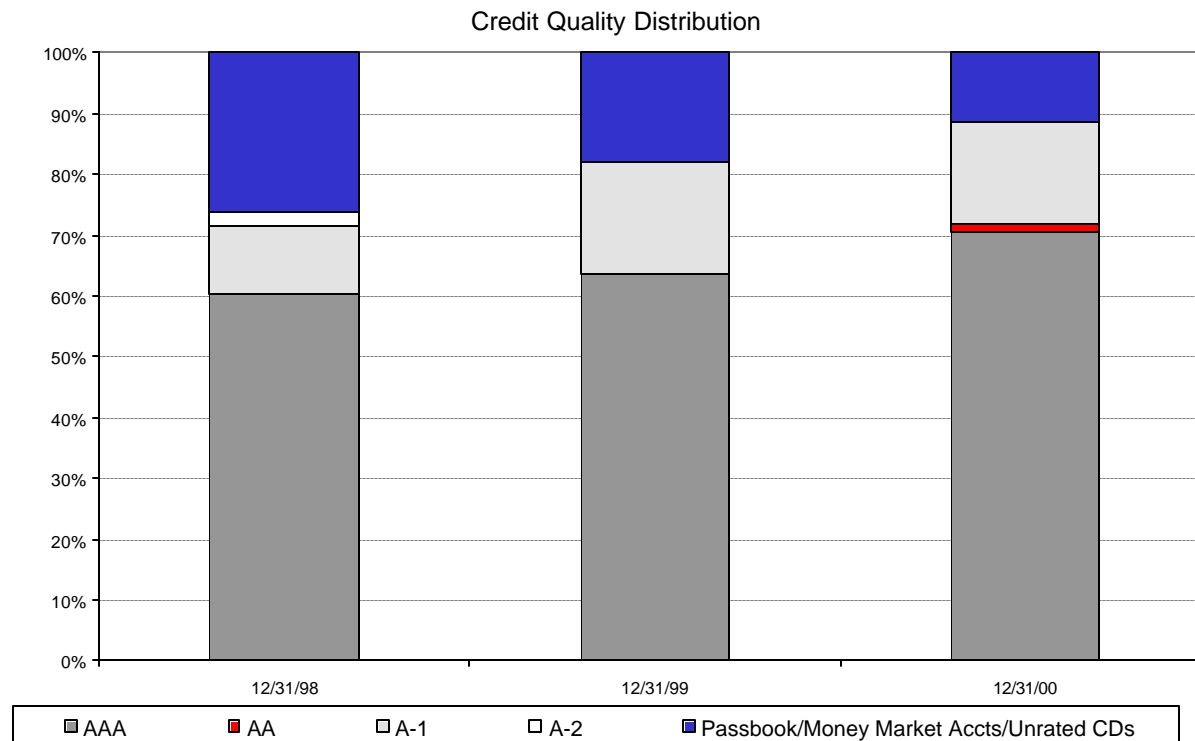


**Based on per values of securities in pool portfolio.

Credit



- The credit quality of the portfolio remains high.
- At year end, over 87% of the portfolio was invested in securities rated “AAA” or “A-1”.



**Based on per values of securities in pool portfolio.

Credit Issues

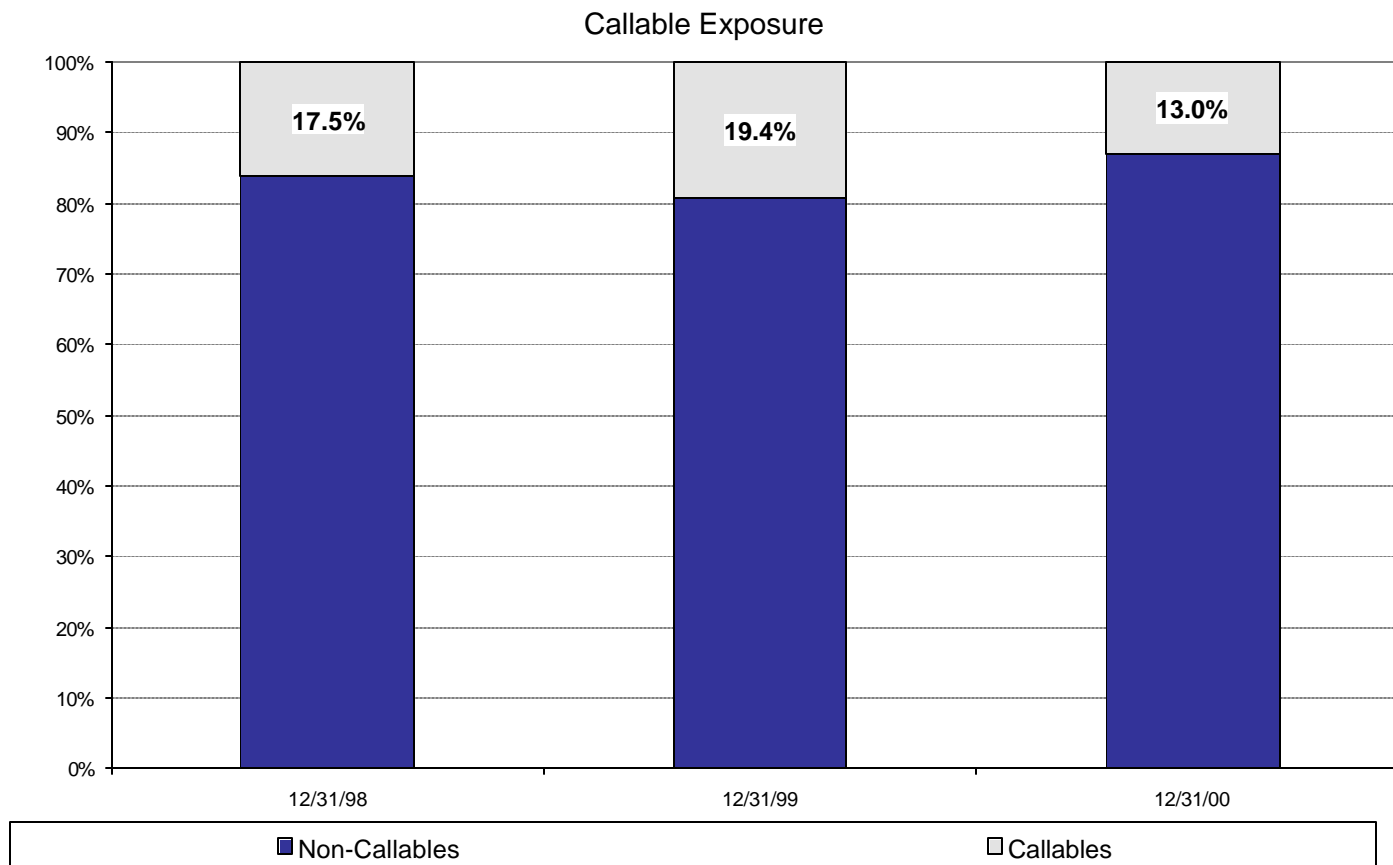


- As the economy slows, credit quality of corporate issues will likely decline leading to potential downgrades.
- Credit quality issues have impacted well-known names including AT&T, WorldCom, Xerox, J.C. Penney, and DaimlerChrysler. Investments in these companies have experienced significant market value deterioration.
- Only one-month after Edison and P.G.&E had their credit rating reiterated as an “A-1”, these companies *defaulted* on their short-term and long-term debt obligations.
- The County should continue to buy only high quality corporate names and closely monitor the credit quality of all the issuers in the portfolio and their industry trends to avoid the credit problems that have impacted other public agencies.

Allocation to Callable Securities



- Minimal exposure to callables in 2000 protected the County from reinvestment risk.



*Based on per values of securities in pool portfolio.

Investment Strategy Suggestions



- Maintain a maturity target of 9-10 months.
 - “Inverted” yield curve.
 - Extend portfolio by purchasing 12-24 month maturities.
- Maintain laddered portfolio structure.
- Emphasize both Treasury and Federal Agencies for longer-term purchases.
- Maintain current allocation to callables.
 - Replace callables that are called or mature.
 - Limit total call exposure to 20% of the portfolio.
- Increase use of LGIP due to recent Fed rate decreases.
 - Money market funds tend to lag short-term rates modestly.